

FISCAL NOTE

SB 1766 – HB 1586

March 8, 2007

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 6.0% to 5.0%, effective January 1, 2008.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues:

\$11,822,000 / General Fund - FY07-08
\$26,514,500 / Education Fund – FY07-08
\$149,500 / Department of Revenue – FY07-08
<u>\$374,000 / Sinking Fund – FY07-08</u>
\$38,860,000 – Total Decrease in FY07-08
\$23,644,000 / General Fund – FY08-09
\$53,029,000 / Education Fund – FY08-09
\$299,000 / Department of Revenue – FY08-09
<u>\$748,000 / Sinking Fund – FY08-09</u>
\$77,720,000 – Total Decrease in FY08-09

Decrease Local Govt. Revenues – \$1,871,000 – FY07-08
\$3,741,000 – FY08-09

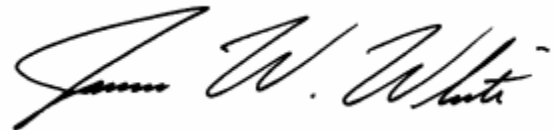
Assumptions:

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- According to the Department of Revenue, taxable sales of food and food ingredients in Tennessee for FY05-06 were approximately \$7,753,600,000.
- Based on historical collection patterns, taxable sales of food and food ingredients are estimated to grow by approximately 2.5% per year.
- Taxable sales for FY07-08 are estimated to be approximately \$8,146,126,000.

- The recurring decrease in state sales tax revenue resulting from a one-time 1% rate reduction for food sales is estimated to be \$81,461,000 ($\$8,146,126,000 \times 1\% = \$81,461,260$) per year.
- The estimated \$81,461,000 in state sales tax revenue would have been apportioned as follows: \$23,644,000 to the General Fund, \$53,029,000 to education, \$3,741,000 to local governments, \$299,000 to the Department of Revenue (DOR), and \$748,000 to the Sinking Fund.
- The net decrease to state revenues is estimated to be \$77,720,000 ($\$81,461,000 - \$3,741,000 \text{ local government share} = \$77,720,000$).
- The state will forgo additional sales tax revenue in subsequent fiscal years due to growth of taxable sales.
- Local governments are not held harmless from the loss of state-shared sales tax revenue. Therefore, the recurring decrease to local government revenues is estimated to be \$3,741,000.
- First-year impact is estimated at 50% of full-year impact due to effective date.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director